

Message Text

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21

ACTION AF-06

INFO OCT-01 ARA-06 EA-06 EUR-12 NEA-10 IO-10 ISO-00 FEA-01

ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00

EB-07 FPC-01 H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05

OMB-01 PM-03 USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04

TRSE-00 FRB-03 PA-01 PRS-01 /134 W

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R 111518Z JUL 75

FM AMEMBASSY LAGOS

TO SECSTATE WASHDC 146

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY BEIRUT

AMEMBASSY CARACAS

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LIBREVILLE

AMEMBASSY LONDON

AMEMBASSY QUITO

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

AMEMBASSY THE HAGUE

AMEMBASSY VIENNA

US MISSION OECD PARIS 4863

C O N F I D E N T I A L LAGOS 6600

E.O. 11652: GDS

TAGS: ENRG, EFIN, NI

SUBJECT: NIGERIA LOWERS OIL PRICE

REFS: A. LAGOS 3408 B. LAGOS 6443 C. LAGOS 6522

1. SUMMARY. NIGERIAN GOVERNMENT TOLD THE "BIG THREE" OIL

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PRODUCING COMPANIES ON JULY 10 THAT POSTED PRICE AND BUY-BACK
PRICE WOULD BE REDUCED FOR THIRD QUARTER, EFFECT OF WHICH IS TO

REDUCE GOVERNMENT TAKE ABOUT 42 CENTS PER BARREL AND TO INCREASE COMPANY PROFITS SLIGHTLY. AS INDICATED REF C, THIS SHOULD LEAD TO INCREASED LIFTINGS AND TO HIGHER TOTAL REVENUE FOR THE GOVERNMENT. END SUMMARY.

2. IN SEPARATE MEETINGS JULY 10 WITH SHELL-BP, GULF, AND MOBIL, MINISTRY OF MINES AND POWER PROPOSED REDUCE POSTED PRICE BY \$.40 AND REDUCE BUY-BACK PRICE BY \$.20 FOR THIRD QUARTER. (MMP ALSO STARTED USING A FIGURE FOR ASSUMED AVERAGE PRODUCTION COSTS (\$.80) WHICH IS MUCH CLOSER TO ACTUAL COSTS.) COMPANIES GENERALLY SATISFIED WITH THESE CHANGES, AND THEY ARE LIKELY TO BE IMPLEMENTED WITHOUT PROLONGED DISCUSSION. IN ADDITION, MMP INDICATED ITS WILLINGNESS NEGOTIATE MODIFICATION OF DEPRECIATION TERMS WHICH WOULD IMPROVE COMPANIES' RETURN ON INVESTMENT.

3. ACCORDING EMBASSY CALCULATIONS, EFFECT OF THESE CHANGES WOULD BE TO REDUCE THEORETICAL AVERAGE TAX-PAID COST OF EQUITY OIL FROM \$10.712 PER BARREL TO \$10.384. WEIGHTED AVERAGE TOTAL COST OF ALL NIGERIAN CRUDE OIL WOULD GO DOWN FROM \$11,200 TO \$10.943. GOVERNMENT TAKE (INCLUDING ALL TAX, ROYALTY, AND BUY-BACK REVENUE) WOULD BE REDUCED FROM \$10.560 TO \$10.143, AND PRODUCING COMPANY MARGIN (I.E. DIFFERENCE BETWEEN WEIGHTED AVERAGE TOTAL COST AND THE BUY-BACK PRICE) WOULD BE INCREASED FROM \$.40 TO \$.457.

4. FOLLOWING TABLE SUMMARIZES THIRD QUARTER TERMS AND COMPARES THEM TO SECOND QUARTER:

	SECOND QUARTER 1975	THIRD QUARTER 1975
AV. PRODUCTION COSTS	.64	.80
BUY-BACK PRICE	11.60	11.40
POSTED PRICE	12.063	11.663
ROYALTY RATE (PERCENT)	20	20
TAX RATE (PERCENT)	85	85
ROYALTY	2.413	2.333
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TAX	7.659	7.251
GOVT.TAKE, EQUITY OIL	10.072	9.584
CO. MARGIN, EQUITY OIL	.888	1.016
GOVT. TAKE , GOVT. OIL	10.96	10.60
WEIGHTED AV. GOVT. TAKE	10.560	10.143
AVERAGE COMPANY MARGIN	.400	.457
PERCENT FOR GOVT	96.4	95.7
PERCENT FOR COMPANIES	3.6	4.3
TOTAL COST, EQUITY OIL	10.712	10.384
WEIGHTED AV. TOTAL COST	11.200	10.943

5. WHEREAS THESE TERMS STILL UNDER DISCUSSION, DISCLOSURE
MIGHT COMPROMISE EMBASSY SOURCE. THEY SHOULD THEREFORE BE
CONSIDERED CONFIDENTIAL UNTIL CONFIRMED BY OPEN SOURCE.

6. FYI. JULY 10 MEETINGS CONDUCTED BY MMP PERMANENT
SECRETARY ASIODU WHO APPEARED SELF-CONFIDENT, FULLY IN COMMAND
OF THE SITUATION, AND AS FRIENDLY AS HE EVER HAS BEEN WITH
COMPANY REPRESENTATIVES. YES-MEN WHO ATTENDED FROM MMP
AND NIGERIAN NATIONAL OIL CORPORATION HAD NOT PARTICIPATED IN
PREVIOUS MEETINGS OF THIS KIND. END FYI.
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